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U. S. DEPT. OF AGRICULTURE
NATIONAL A. S. EXTENSION SERVICE

RE **Cylin** *for the 1st of July*

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PREFACE

The twelfth meeting of the Agricultural Economics Research Advisory Committee was held in Washington, D. C., on November 30 - December 2, 1964, with all members of the Committee present. The Committee made a systematic review of the Department's economic research program. The primary basis for this review was the Progress Reports prepared for the Committee's use by each of the economic research divisions. This source of information was supplemented by oral reports from the following USDA research divisions of the Economic Research Service: Farm Production Economics, Resource Development Economics, Economic and Statistical Analysis, Marketing Economics, Development and Trade Analysis, Foreign Regional Analysis, and from the Consumer and Food Economics Division of the Agricultural Research Service, the Farmers Cooperative Service, and the Statistical Reporting Service.

Mr. John A. Schnittker, Director, Agricultural Economics, USDA, is Chairman of the Committee; and Mr. Nathan M. Koffsky, Administrator, Economic Research Service, USDA, is Vice-Chairman.

After a careful review of all the material available to the Committee, the Committee members prepared and submitted the recommendations which follow to the Secretary of Agriculture.

Additional copies of this report may be obtained from James F. Lankford, Executive Secretary of Agricultural Economics Research Advisory Committee, Research Program and Evaluation Staff, U. S. Department of Agriculture, Washington, D. C.

AGRICULTURAL ECONOMICS RESEARCH ADVISORY COMMITTEE
REPORT AND RECOMMENDATIONS

GENERAL COMMENTS

The quality of economics research in the Department of Agriculture is of a high order. The tradition of objective, scholarly analysis in the Economic Research Service, the Farmer Cooperative Service, the Statistical Reporting Service and the Consumer and Food Economics Research Division of the Agricultural Research Service is being well maintained. The performance of the professional economists in these units measures up to the best standards of dedicated civil service.

As the intelligence staff for United States agriculture, these workers provide the basic information on which farmers, businessmen, consumers, Congress, the Executive Branch and many others rely in making decisions. The Committee believes this function is being ably carried out.

The rapid changes in agriculture and related industries require constant review and analysis if policy decisions are to be soundly based. This demands close attention to improvement of data collection and application of the latest knowledge in economic theory and research methods. The close contact between the Department of Agriculture and the land-grant universities facilitates this advance. Researchers in the Department are able to draw on work in the States, and State university researchers make quick use of the latest advances in economic research by the Department.

We commend especially the improvement in outlook reports and the projections of supply and demand by the Economic Research Service. The commodity analysis work needs strengthening. We believe special situation analyses in depth, such as those on the decline in beef cattle prices in 1963 and the drought affecting feed grain production in 1964, are especially valuable.

The Department needs a substantial expansion in research concerning the population decline in rural areas. The scheduled increase in studies about the effect of this decline on rural communities, on education in rural areas, etc., is inadequate, in our judgment. The adjustment problems of rural areas, especially those which are depressed or chronically low-income, continue to hold a high place in the priority list for expanded research resources. The critical impact of economic and social change on many rural areas demands that we provide reliable information to help rural people and their communities to meet such difficult but vital adjustment problems as human out-migration, local industrialization, and community organization.

Another area of studies which should receive more attention is the rapidly changing structure of agriculture. The new information on off-farm sources of income for farm people shows a surprising increase in such earnings by farm people, even among commercial farmers. This is an adjustment in American farming that often escapes attention and should be explored.

We mention these fields of study to illustrate the general point that research should look to the future in order to serve the interests of agriculture in anticipating adjustments.

A large portion of the economic research of the Department, like many of its other services, is of great benefit to the consumer and the public at large. This is not as well understood as it should be. The studies in food consumption, especially the national survey now being planned, are of utmost importance and deserve the staff necessary for prompt analysis of the data and quick publication of results.

We believe that the economic research of USDA could be improved by better coordination of work in different units. However, some flexibility in pursuit of new knowledge is desirable. Rigid compartmentalization of research subject areas would not yield best results.

Funds should be allocated and effort expanded in at least rough relationship to the economic importance of the possible areas of study. The Department economics staff's primary duty should be to carry on aggregative studies on matters affecting the nation as a whole. This is especially important in the field of foreign affairs. More knowledge is needed on agricultural development in other lands, foreign food supply and demand trends and foreign trade issues, and work in this area should be better supported, since it is so vital to our future welfare.

FARM PRODUCTION ECONOMICS DIVISION, ERS

The research staff of this Division demonstrates its productivity with an impressive list of publications produced in the past year. Furthermore, its long background of focus on economics of the farm firm shows up favorably in its work. The intent to concentrate on the economics of commercial agriculture is recognized and strongly supported. Therefore, the demonstrated attention to economic logic and statistical accuracy should be encouraged.

The reorganization, with its emphasis on modernization, which took place over the past year should strengthen greatly the effectiveness of the Division to meet future needs, especially as such emphasis improves the competency of the Division to provide accurate information on national problems, policies and objectives; as the Division develops understanding about the structural changes taking place in the agriculture economy; and as its efforts at "model-making" result in improved research information.

The emphasis on aggregative approaches should result in good national data. The Division should guard against undertaking studies which can be more appropriately carried out in the States.

We note with great interest the involvement of this Division in the massive effort to find effective ways for measuring, and, in fact, lowering the cost of production of cotton. Encouragement should be provided to assure

that this project is properly evaluated to determine the effect of such a massive research effort on a single commodity. The Division is encouraged to cooperate fully with counter-part professionals and departments in the relevant land-grant institutions.

We recognize the fine working relationships with State land-grant institutions found in this Division and other Divisions of ERS. Such inter-institutional relations result in a healthy exchange of knowledge and creates better mutual understanding. This relationship should be encouraged.

Taxes on real estate, local government in rural areas, and sources of revenue to local government systems are prime problems in declining and expanding rural areas. Changes, as they occur here, are related to rural area development-type activities. We view with concern the reduction in research manpower for study in this general area. Expanded activities in this area would be preferred by the Committee.

RESOURCE DEVELOPMENT ECONOMICS DIVISION, ERS

The rapidly changing situation in rural areas begs the urgency for expanded research efforts within the framework of this Division, especially as it relates to development and transition problems of rural people, and particularly those families living on the two million farms with less than satisfactory incomes. Disadvantaged rural areas and the lure of the "good life" poses problems for our time which seem urgent, and appropriately fall within the scope of this Division.

This Division deserves commendation for its balanced and comprehensive projects in resource development--land, water, tenure, river basin, and watershed research. The publication output in the project areas reflects the productivity. The river basin and watershed work takes place within a framework of planning; is devoted to specific locations; and is accomplished on funds transferred from other units, and thus it is directed to purposes for which the funds are allocated.

The Committee feels that the following points deserve special consideration:

1. Greater emphasis is appropriate on people-oriented projects relating to income, employment, human factors, resource and industrial development in rural areas. Furthermore, the concept that most problems of people living in rural areas are appropriately the concern of the Department of Agriculture is appropriate even though it may seem somewhat nebulous now. Otherwise, the disparity in community and living amenities will continue to widen. To be concerned, however, will require a greater understanding of urban and industrial value systems than is now found in rural-oriented social scientists.

2. The expanded professional resources needed to carry out the foregoing may be appropriately considered to come from other disciplines not currently engaged in this area of work and other branches of economics. If the disciplines of sociology, anthropology, political science, and law were added here, it would greatly improve the value and scope of the research product.

3. The need for close coordination with other divisions in ERS, other services of the Department, and with selected units of other Federal and State institutions is obvious. Noted particularly is the need for coordination with the forthcoming Water Resource Institutes at land-grant institutions.

4. Project areas deserving attention as the Division diversifies its activities and expands its research work include the following:

- a. The structure and services of the rural countryside 10-25 years hence;
- b. Development of entrepreneurial competency in declining agricultural areas;
- c. Industrialization in rural areas and its impact;
- d. Consideration of regional accounts or balance sheet approaches to growth, development and the imbalance found in community sources of income;
- e. The task of "catching up" in distressed rural areas given such factors as current capital depletion, conservative value preferences, and a long list of inadequacies which need correcting;
- f. The institutional structure of the changing community, including the shifts taking place in the control of major resources;
- g. Farmer-owned and farmer-stimulated industrial development;
- h. The commercialization or decommercialization of farms;
- i. Recreation in rural areas.

There is an awareness of need and problem structure by the staff and they are to be encouraged.

ECONOMIC AND STATISTICAL ANALYSIS DIVISION, ERS

The reports of this Division concerned with supply, demand and price analysis; projections of economic trends and farm income are basic tools for other researchers in the Department and elsewhere. They are the basis for the commodity outlook work, farm policy planning, and farm program appraisal. Yet all these reports are no better than the fundamental data and their analysis. Therefore, we recommend high priority on improvement of the work in these areas.

The historical studies of this Division, especially those on price support and adjustment programs, are valuable in connection with the policy planning of the Administration and Congress. They are also valuable for general public use. We believe more professional manpower could be profitably used in historical studies.

The commodity outlook work could be improved by greater attention to timeliness. Special reports covering marked changes in commodity situations are more useful than regular reviews published irrespective of whether the factors have shifted or not.

We again wish to emphasize the importance of farm program appraisals--covering both the effects on the consumer and the producer.

The Division will be called upon more and more for information on rural population declines and social and economic adjustments in rural areas. ERS should expand its efforts in this area of research.

MARKETING ECONOMICS DIVISION, ERS

Last year the Agricultural Economics Research Advisory Committee pointed out that "rapid and violent changes are taking place in the marketing structure affecting agriculture." We recommended that the Marketing Economics Division (1) provide more information about these changes and, (2) analyze their causes and effects in terms of competition, bargaining, price-making, and market performance. This was a large-sized order. The Marketing Economics Division has done a creditable job of describing and measuring some of these changes with the conventional data available; but, it has not, in its research program thus far, come to grips with the fundamental causes and consequences of these changes in terms of competition, efficiency, and market performance.

The present margin and market basket statistics of the Department are useful for many purposes, but in many respects they are not adequate for measuring market performance. The components of marketing spreads, the shifting of marketing margins, the incidence of rising costs to farmers or consumers, price lags in periods of rising or falling markets are illustrative of the kind of problems that need more attention than they are presently getting.

The Congress has provided for a National Food Marketing Commission to look into developments in the processing and distribution of farm products, and to evaluate their economic consequences for all groups involved. This Commission has an important assignment and its work and findings will be the focal point of marketing research for farm products for the next several years. The Committee hopes that this Commission will call upon the USDA for assistance in its undertaking and utilize to the fullest extent possible the well-informed and highly competent staff of the Marketing Economics Division.

Apart from the specific findings of the Food Marketing Commission, it is to be hoped that the work of this group will leave a legacy of new data and new analytical techniques for relating market structure to market performance. Difficult as the job is, this should be one of the continuing functions of the Marketing Economics Division.

In some respects, the organizational structure of the Marketing Economics Division is not well adapted to a broad scale analysis of the major marketing problems. The present organization is an admixture of commodity and functional research areas, which results in some of the work being repetitive and overly-fragmented. For instance, the all important matters of market structure, competition, costs and efficiency are being studied on an individual commodity basis and at different and isolated points in the marketing structure. The result tends to be a vast sum of information from which it is difficult to draw general conclusions.

Perhaps it would be helpful if more (not all) of the work of the Marketing Division was oriented toward the answering of a few specific problems, having broader implications than many of the isolated studies presently being carried on. Here are two examples of what is meant: (1) In food retailing, the important structural developments of recent years have been the growth of affiliated independents, larger stores, more individual food items per store, and the discount center. The consequences of this development in regard to competition, retail costs, and efficiency needs to be known, and (2) Information is needed on the important changes in food technology, and the effects such changes have on the size of food plants. (General information in this area is relatively easy to come by, i.e., industrial engineers can give a pretty close approximation as to the cost of an optional-sized mills plant, edible oil refinery, cannery, bakery, etc.). Studies should be made to determine if capital requirements are consistent with large or small-scale enterprise, under independent, corporate, or cooperative ownership.

The Division is doing a good deal of work in the area of merchandising and promotion practices, in which it is studying the methods and results of producer-financed advertising and promotion campaigns. In view of producer interests in such programs, some marketing research of this type is justified by the Division. The committee urges, however, that the effect of such promotion expenditures on total food consumption and total farm income not be ignored.

Many of the research projects of the Division have been undertaken at the request of specific producer or trade groups or with funds appropriated for a special purpose. This tends to put the Division in the role of servicing special groups on what may be relatively unimportant problems from the over-all standpoint. There is perhaps no escape from some work of this sort, but it should be kept to the minimum.

FARMER COOPERATIVE SERVICE

Greater attention is being focused by the USDA on the role cooperatives are playing and can play in improving farm income. This is reflected in the policy statement on cooperatives dated July 9, 1963, which states that the USDA will "accept fully its responsibility to encourage the growth of cooperatives..."

This policy was further emphasized in a USDA release dated May 22, 1964, in which the Secretary of Agriculture directed the department to implement recommendations of the National Advisory Committee on Cooperatives.

While this policy should be reflected throughout the USDA, its area of greatest impact and implementation will no doubt be the Farmer Cooperative Service.

The contributions of FCS over the years to the growth and strengthening of American agriculture has been impressive. The work should be expanded especially in view of the weak bargaining position of the American farmer so cooperatives can be an effective competitive force in both the marketing and farm supply field.

Specific recommendations are as follows:

1. Basic studies should be conducted on the present and future role of cooperatives to answer overall questions such as the following:
 - a. What are the barriers to greater growth of cooperatives?
 - b. Why has the growth and development of cooperatives viewed geographically, product wise, and functionally been spotty and uneven in nature? What are the prime areas for growth in the future?
 - c. What changes do cooperatives need to make to adjust to a rapidly changing agriculture, especially to serve all farmers large and small?
 - d. What is needed for cooperatives to play a greater role in increasing farmer market power and, in turn, farm incomes?
2. Greater emphasis should be placed on functional studies.
3. Studies relating to only one organization should be minimized.
4. Work in the field of financing cooperatives should be carried on continually to assist in meeting capital needs and to study new methods of financing.
5. Continued work in the field of mergers and consolidations plus coordination of effort at all levels is needed.
6. Special attention should be focused on the role of directors to improve selection and performance.
7. Selection and training of managers should receive considerable attention.
8. Cooperatives can play an important role in the Rural Areas Development Program but care should be taken to see they are organized on a sound basis.

The Farmer Cooperative Service is the only agency charged with the responsibility of compiling data and conducting studies relating to the national aspects of farmer cooperative activity. It should continue to function as the basic source of information regarding farmer cooperatives in the United States and its program of research, service, and education should be aimed primarily at levels and at problems not now being handled by cooperatives individually or by state or other agencies.

STATISTICAL REPORTING SERVICE

Research programs to improve the methodology of the Statistical Reporting Service should be continued and expanded.

Work in consumer preferences and attitudes should include studies to measure the ability of consumers to judge quality in products of wide quality variations such as meats. This can point the way for consumer education programs and the reflection back through marketing channels of quality demands.

The work of the regional laboratories in developing new food forms and new food processing techniques is very important to agriculture and liaison with economic research and technical groups in the USDA and land-grant institutions is necessary.

CONSUMER AND FOOD ECONOMICS RESEARCH DIVISION, ARS

The value of national food consumption surveys such as the 1955 survey has been so amply demonstrated that no effort should be spared to make the 1965 survey on national food consumption the best possible. Information provided through such studies is one of the most revealing guides to farm and food policies.

Studies appraising the Food Stamp program should be continued. The preparatory studies on the Food Stamp Plan, the pilot projects of the last two years, and the studies of the effects of these projects laid the groundwork for the present expanded program. Continued operational and depth research is necessary for making decisions on the program in the future and for giving better direction to the surplus food distribution program.

School lunch and school milk programs also should be studied on a continuing basis to assess their accomplishments and shortcomings in improving diets. More research is needed on food consumption of low income families. The food consumption survey of 1965 should provide for much better foundation for all these studies of food distribution.

Studies on home management problems concerning the repair and replacement of household equipment are needed.

DEVELOPMENT AND TRADE ANALYSIS and FOREIGN REGIONAL ANALYSIS DIVISIONS, ERS

The Committee strongly encourages the Development and Trade Analysis Division to further its efforts in continuing research on the role of agriculture in economic growth with emphasis on the place of rural social institutions, local power and governmental structures and motivations as

reflected in beliefs and attitudes of people of different cultures. Continued attention must also be directed on efforts to increase the quality, timeliness and coverage of U.S. trade statistics.

The Advisory Committee also wishes to commend the Foreign Regional Analysis Division on its outstanding performance in the issuance of the New World Food Budget as basic information to assist in determining food production and export policies.

Rising consumer incomes during economic growth lead to changes in consumption habits and the commodity composition of demand. The effects on demand, including imports, have been partially established but further analysis is necessary since they directly affect estimates of future trade potentials in each country passing through different stages of economic growth.

As underdeveloped countries seek to raise their agricultural output and productivity, they face the problem of transforming traditional agriculture from a subsistence to market oriented economy. Research is needed on the impact that various programs and policies will have on accelerating the adoption of improved production and marketing practices. Factors such as price and subsidy policies; tax programs; tenure structure and community organization; educational, extension, and experiment station systems; and the will to develop are illustrative of some of the areas that need to be studied from the viewpoint of their effect on helping farmers enter commercial agriculture.

Studies of the prospective world supply, demand, and prices are needed for bananas, sugar, coffee, cocoa, and rubber in order to more adequately appraise the desirability of programs for expanded production of these commodities in a number of less developed countries. Attention should be focused on the overall supply-demand relations for specific commodities and the implications for less developed countries.

In recent years, total export markets have become increasingly important relative to domestic outlets. Despite domestic price supports, commodities have been priced competitively in international markets under export programs. Research is needed to determine what impacts alternative price policies in domestic, foreign commercial, and foreign concessional markets have on farm incomes and efficiency in resource use.

Analysis of existing market organization and structure is needed in several countries to assess the limitations on increased U.S. agricultural Food-for-Peace exports imposed by inadequate marketing and distribution arrangements for important U.S. commodities imported by these countries. Studies should be concerned with (1) adequacy of marketing facilities (storage, transportation, port facilities and processing), (2) marketing and distribution costs and margins and ways to reduce them, (3) effects of changes in marketing and distribution on prices and consumption of important imported U.S. products, and (4) relationship between the stage of economic development and the level of potential development of marketing and distribution.

Research is needed to analyze the kinds of international agricultural commodity agreements and trading arrangements which promote economic stability and growth. The study of commodity agreements and the economic forces which lie behind these devices for assisting primary producing areas in particular require a thorough review of their strengths and weaknesses.

Studies should be concerned with projecting the size and nature of foreign markets for U.S. agricultural commodities as influenced by policies in the EEC regarding agricultural protection and other measures affecting production, consumption, and marketing. Additional work is necessary on the Central American Free Trade Association and the Latin American Free Trade Association.

There is a need to evaluate the financial effects of P.L. 480 programs on a country-by-country basis. The effect of inflation in P.L. 480 recipient countries upon the value of U.S. held currencies should be determined. Continuing appraisals should be undertaken regarding the effect on U.S. concessional imports on recipients' balance of payments, and internal monetary and fiscal operations.

Research needs to be expanded so that U.S. interests may have more adequate knowledge about prices and pricing conditions for U.S. and competing farm products in foreign markets. Monthly and annual price series for individual commodities and a series of price index numbers should be established. Moreover, price indexes of U.S. agricultural exports and imports are needed to supplement the existing quantity indexes. Analytical reviews of trends in world agricultural prices should be undertaken.

The need for information on foreign competitors has become so great that compilation and analysis of quarterly and annual data on the agricultural exports and imports of all the major trading countries are needed. Appropriate summaries should be made for groupings of commodities and countries, including the EEC, the European Free Trade Association, Central American Common Market, Latin American Free Trade Association, and Communist countries. Data should include quantity, value, and unit value. Analyses of the statistical results should focus on nontariff trade barriers, import tariffs, prices, and other factors bearing upon the sale of U.S. agricultural products in foreign markets.

Consolidation of the country supply and demand studies by region and for the world should be attempted to include analyses and integration of country studies; estimation of supply, demand and trade of those countries not covered by long-term projections; and the assessment of the implications for U.S. farm exports and imports.

Research on selected phases of competition and demand in the five foreign regional branches should be continued with emphasis on (1) opportunities and problems for U.S. farm exports arising out of developments in various parts of the world, and (2) implications of economic development in the

principal U.S. agricultural markets and in countries which compete with the United States for these markets.

Work should continue on appraising estimates of production in foreign countries, using information from studies of supply and demand, agricultural censuses, food balances and other sources. Additional research is urgently needed to compile, organize and analyze available data on the agriculture and trade of Africa, required for market development and foreign policy purposes.

